

Living the Promise: 75 Years of CalPERS

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Segment: Living the Promise: 75 YEARS OF CalPERS

Video Transcript

Dawn Bronsema:

Well the pension and CalPERS, the way it's been set up for our pension...that's called security.

That means we can live comfortably when we choose to retire. CalPERS has given us that opportunity to have a secure life.

William Donoghue:

When I went into the police department, the promise was made that after I had served a given amount of time I would have adequate income and I would have medical benefits that would take care of me. This is a promise.

Rob Feckner:

CalPERS has been set up over the years to be the fundamental resource and retirement fund for almost all the public servants for the State of California. Those that have put their lives on the line every day, perform their duties every day, for the public people of California. They've been the school custodians, the food service workers, the police, the firemen, the state workers, the park system people, the people who give every day to make this a better place.

William Donoghue:

I was born in St. Louis, Missouri, May the 11th, 1932. My dad died when I was 9 years old and there were seven of us. So that was a hard-scrabble time, I would say.

Dawn Bronsema:

My father was the manager of a filling station, my mother was a housewife. We were fortunate during the depression era that my father had an income where many families did not have incomes. I never heard them talk about benefits because no one had benefits. There was no sick leave and there was no health insurance and there was no retirement.

Chris Castaneda:

A couple of things motivated the establishment of a pension system. One was to bring more efficiency to the workplace. And also to create a system in which people who had spent their lives working for the state, in this case, would have a means of support after they finished working.

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And this was an innovation. In the 19th century, oftentimes people who ended their careers would have no place to go. If they could be taken in by family or friends, they'd be lucky. In some counties, there were poorhouses set up to provide very subsistence level environment for these people. Not a very good lifestyle.

Dawn Bronsema:

The people that were unemployed and had nowhere to live, lived at a county poor farm. And the county took care of those people that were unemployed or too ill to work or too old to work.

Bob Carlson:

Well, there are several motivations behind forming our pension system. The first and primary reason was the fact that social security was just established and did not cover or include government employees.

Chris Castaneda:

The state workers who were in favor of creating this system created an organization called the State Employees Retirement Campaign Committee.

It's one of the first political action committees. And they took a very strong leadership role in campaigning statewide. They hired a man named Clem Whitaker, who is also considered to be one of the first sort of campaign consultants for political initiatives in California, and he did a massive mailing campaign across the state. Had a lot of techniques that hadn't been used before.

JJ Jelincic:

So the employees went off and started an initiative process, circulated petitions and got it put on the ballot as Prop 5 in 1930. And then they started campaigning.

Narrator:

On Nov. 4, 1930, Proposition 5, the Eagles Old Age Pension Act, passes by a narrow vote. California adopts the first mandatory old age pension system in the United States

Charles Valdes:

It was a great idea that was initially founded and started by state employees through the initiative process, through the political process, and I don't think they realized just what a great thing they were doing back then.

Patricia Macht:

I think it was a spectacular moment for the State of California because it even preceded Social Security, so in the true tradition of California being first and how the nation can look at California as a leader, that was one of those beautiful moments in American history when California being first played out.

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Dawn Bronsema:

I'm sure my father started paying into Social Security when the Social Security bill was signed into law. Unfortunately, he did not benefit from the Social Security because he worked until he was 72 and the only reason he quit work really is because he became ill. And he finally had to quit work and passed away a few weeks later. So I really don't think he even drew one check.

Narrator:

The State Employees' Retirement System, or SERS, as its known then, is organized under the leadership of Earl Chapman.

Narrator:

The benefits structure is devised based on age and gender. Women's rates are set higher than those for men, because women have a longer life expectancy.

Chris Castaneda:

SERS started off as a very small organization. Earl Chapman oversaw a very small staff of six full-time employees and six temporary employees.

When SERS was first created, its investment fund was about \$800,000. It was the responsibility of SERS to invest that money wisely, but there were also legal limitations on how those investments could be made. At that time, the only investments that SERS could make were investments in municipal bonds and government bonds.

Narrator:

SERS opens its membership to other public servants. California Highway Patrol and state prison employees are placed on a separate benefit system because of their dangerous working conditions. School districts and other public agencies also contract with SERS. By June 1946, 113 public agencies are under contract.

William Donoghue:

I don't think anyone thinks about retiring when they're young. Maybe I did more than others because I had responsibilities early on, because I was told I was the man of the family when I was nine years old.

Narrator:

The SERS Board and the legislature over the years broaden the system's investment options, adding public utilities to the list of approved corporate bonds, and later, common stock.

Charles Valdes:

I know that they started back in the early thirties with a very conservative kind of investment scheme that produced earnings but not as much as they could have had if they had invested in the stock market, or in the public equity. So some years later, they sought that authority from the legislature. The legislature

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allowed them to invest in stocks, but unfortunately, only in a restricted list of blue chip stocks.

Bob Carlson:

And then there was a limitation that these companies had to pay dividends for 10 consecutive years.

Charles Valdes:

So you could buy GM and GE and any of the very large corporations, but not any of the rest of the market.

Narrator:

The passage of Proposition 21 allows the System to dramatically diversify its investments and take full advantage of the new global economy.

Ron Seeling:

The point of that in today's world, 75% to 80% of all of the benefits that are paid out of CalPERS come from investment earnings, and the other 25% are split between employer and member contributions. So this whole notion of the investment function being at CalPERS and making the investment return is the key to the success of CalPERS and the reason that the plan is affordable.

Bob Carlson:

The Prop 21 really started us on a roll, and that's when our system really began to grow. Because I remember when we were about the 30th largest pension fund in the United States, and we're now number one.

William Donoghue:

I think that CalPERS is a model for the nation. I think that if Social Security had been handled like CalPERS has been handled, we wouldn't have near the trouble we have now over Social Security.

You know, this reminds me of the old Yogi Berra thing: if I'd known I was going to live this long, I would've taken better care of myself.

Narrator:

In 1956, SERS Executive Officer Earl Chapman dies. Chapman had guided the system's growth since its founding.

SERS had offered members of the California State Employees' Association some health benefits since the 1930s. The Public Employees' Medical and Hospital Care Act of 1962 dramatically increased SERS responsibility for providing health services to its members and broadened its role as a health benefits administrator.

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JJ Jelincic:

Health care benefits are really very important. Everybody needs health care, our retirees in particular because when you get older you use more health care.

Pat Macht:

CalPERS went about and built probably one of the strongest health care programs in the entire nation. It's often looked at by lots of other states nationally as a leader in managing health benefits.

Rob Feckner:

I think that's been an ongoing battle. How to find that balance between an affordable plan and yet one that offers quality to its membership.

Pat Macht:

And so over time, CalPERS has whittled away the health plans that were not competitive and went to a partnership model where we work with Blue Shield on HMO and statewide and we have a few others and then began to then look at the true drivers of health care.

Fred Buenrostro:

We instituted a narrow hospital network to deal with out of control hospital costs. We introduced pharmacy benefit management to try and fight off the rapidly increasing costs of pharmaceutical products. We've fought to maintain coverage in the more rural parts of California for our members.

Pat Macht:

Ultimately, we went after hospitals and even, and now looking at even physician networks that may not be as cost effective.

JJ Jelincic:

It clearly is a benefit that we need to take and it's extremely valuable to our members. It's extremely valuable to retirees.

William Donoghue:

I had a triple bypass just before my 70th birthday. And, I don't remember how much money had to go into that, but because I was in the retirement system, my medical was covered, and I was able to come back from that.

Narrator:

As CalPERS grows, so does tension over who controls the fund. Is it CalPERS, the Governor's office, or the Legislature?

Narrator:

In 1991, Governor Pete Wilson tries to gain greater control over the Board, along with \$1.6 billion to cover the state's budget crisis.

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Pete Wilson:

I am willing to go to the mat because this is a necessary part of what is a very delicate balance. Without this, we will be very seriously short. And not just this year, but in the years to come.

Narrator:

Then came Assembly Bill 702: a horseracing bill. The Governor's supporters in the Legislature removed the horseracing language the bill originally contained and replaced it with a new measure that moved the actuary function into the Governor's office.

David Felderstein:

When a deal is being made by the legislature and the governor, you can take a bill that's moving along - let's call it a Chevrolet. The bill's a Chevrolet. Well, you can gut it, you can take the seats out, you can take the motor out, you can take everything out of the bill, you can gut the bill down to its very bare bones and stick new content to the bill and make it into a Cadillac.

Chris Castaneda:

So Governor Wilson seeks to balance the state budget by using about 1.6 billion dollars from two funds at PERS: the reserve funds. His intent is to use these funds to balance the budget and also to allow for California not to pay its contribution for state workers.

David Felderstein:

When Pete Wilson was elected governor, he said the same thing basically that Jerry Brown had said, which is we're going to take the entire state's contribution out of the investment dividend disbursement account because when Pete Wilson became governor, the state was in a very severe budget crisis. The governor also had a whole program of removing from PERS the actuarial function, which is how the state's contribution to PERS is determined, and putting in the governor's office.

Bob Carlson:

Well, you can imagine the outcry from public employees and retirees and from even editorial boards of newspapers that criticized this move. This is taking away something that was vested and created Proposition 162.

David Felderstein:

Which passed. And Proposition 162 went beyond and said the actuarial function was now by constitution put with the retirement systems and taken away from the governor's office. And not only that, the PERS board and other pension boards were given so-called plenary authority, which means those boards have total authority over the investment and administration of the funds. The legislature

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could no longer play around with the contributions going into the retirement fund, which in my opinion is an excellent thing.

Charles Valdes:

So after 1992 when prop 162 was passed, we are now free to invest in any kind of investment, as long as it passed the muster and as long as it reduces our risk, and that's how we get into some of those interesting areas. And frankly it pays off.

Dawn Bronsema:

As an employee, paying into the CalPERS system, and the district contributing to the CalPERS system, this gives them a lifetime income, and that's what we all want.

William Donoghue:

Doing the right thing is taking responsibility for yourself, for the people that rely on you, and always thinking of the consequences of your acts.

Narrator:

In 1974, legendary Democratic politician Jesse Unruh is elected State Treasurer and takes a seat on the PERS board. Unruh and his colleagues begin to steer the fund from passive to activist investing. The System becomes a leader in the international corporate governance movement, which wields tremendous influence in boardrooms worldwide while protecting public pensions and guarding against corporate corruption.

Fred Buenrostro:

CalPERS has a huge portfolio. It can't move in and out of the stock market on a daily, weekly, or monthly basis. Our money is in the market every day. So corporate governance is, for us, is founded on the principle that any corporation that's poorly performing is dragging down our portfolio performance. We want them to do better.

Narrator:

Unruh and others on the CalPERS Board realize their clout will be much greater if they band together with other large investors, which leads to the formation of the Council of Institutional Investors, which now represents 130 public, labor and corporate pension funds with assets of 3 trillion dollars.

Fred Buenrostro:

The other part of corporate governance is founded on some of the activities in the early eighties by Carl Icon, T. Boone Pickens, Ivan Boske and other corporate raiders and green mailers who are actually extorting money from corporations for their own benefit. That made treasurer Jess Unruh really angry. His response was to form the Council of Institutional investors.

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Charles Valdes:

One thing about corporate leaders, whether they are the managers or the board of directors, is that they're very inventive. They find new and interesting ways to go ahead and scheme either raising their salaries far beyond what might be expected, new ways to use stock options. You've heard the whole thing about predating and all of that. There always seems to be some new issue that comes up that we can face through corporate governance.

Narrator:

By the 1990s, CalPERS begins partnering directly with corporations. With Enron, the System creates a \$1 billion energy fund to invest in natural gas, oil and electricity.

Charles Valdes:

We put up \$500 million and they put up \$500 million and they invested it in these energy investments in India and the Philippines. And we made close to 600 million dollars on both of those investments.

Narrator:

The CalPERS fund is hit hard by Enron's collapse and by the WorldCom accounting scandal.

Rob Feckner:

With the ENRON and WorldCom debacles, where CalPERS certainly had money invested, we lost money but at the same time there were learned lessons and we've changed policies and moved forward as a result of that. But I think it's important for us, especially as one of the largest share owners in the world, to push those issues forward and make sure we don't have those problems in the future.

Narrator:

CalPERS vigilant investment style has created a phenomenon called "The CalPERS Effect".

Fred Buenrostro:

When CalPERS looks at a company puts it on our list of poor performing companies, it becomes a signal to the market to buy that company because it will probably perform better in the next few years based on our loving attention to that company.

Rob Feckner:

They make changes, their prices improve, their stocks go up.

Charles Valdes:

In the case of the New York Stock Exchange, we became very active, very public. We caused Mr. Grasso, the director of the New York Stock Exchange, to

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resign. You know at first when we started our corporate governance program, we were regarded as some sort of gadfly by most corporate directors and CEOs. Now most shareowners and many corporate boards regard us as being someone who had provided a great deal of value. They are beginning to respect us. And that's another CalPERS Effect.

Fred Buenrostro:

We live in an electronic age today. Technology is a struggle for any company, any public agency because technology is changing so fast. We work hard at trying to stay with the cutting edge of technology.

Pat Macht:

CalPERS has a rich history of technology because after all we're a records management company - we have a file for each member - and so we have to keep account a lot of information about the member and of course we have to keep a lot of information about the employers.

Narrator:

CalPERS is a leader in adopting new technology and new ideas in its management of investments and information.

One of those new ideas in the pre-computer age was the Chainindex, a sort of human computer system used for manually updating records, which were then kept on index cards for each member. Each human link in the data stream performs a different operation. The Chainindex worked –and it remained in use well into the 1970s.

Ron Seeling:

At CalPERS, there's well over a million members with a couple of thousand CalPERS employees when you think about the ratio of members to employees, one on one interactions become almost impossible and you have to mass communications opportunities to share communication back and forth between members and CalPERS employees.

Narrator:

A rededication to member service brings new ways of reaching out to 1.5 million members around the world, including a website launched in 1997 and a unified customer contact center in 2002.

Fred Buenrostro:

We have instituted retirement education fairs to provide our members with better information, outreach in communities throughout the state, so that our members can come and learn about their benefits and what they need to do to prepare for the future.

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CalPERS is trying to adapt all of its programs so that they're all online and web-based so both our members and our employers can access all of the information they want through the internet.

Rob Feckner:

We've developed a webpage that is a fantastic device that our members can access 24 hours a day, 7 days a week. Upgrade themselves, their own material, their own information and allow them to actually make changes within the system without having to wait and talk to a live person. They can make those on their time and their schedule.

Narrator:

Throughout its history, CalPERS has always looked for progressive ways to protect and enhance the retirement and health security of its members. CalPERS has been a thoughtful leader in developing investment programs that embrace diversity, recognize the importance of climate change, and seek to add value to the fund.

Pat Macht:

California is a very diverse state, and the board has always felt, and executive staff has always felt, that it's important that CalPERS reflects the larger picture of California in everything that we do.

Bob Carlson:

We will lead the way in investments in California. And I think that's so important for us that we identify our affect on California.

Charles Valdes:

We now have a number of what we call initiatives in a number of different fields. One of the latest is our Clean Tech fund, which is really getting into environmental areas, energy sources, and so on.

Fred Buenrostro:

The CalPERS board for decades has had progressive leaders that bring to the board a commitment to customer service, a commitment to our members and our employers that permeates everything that goes on. CalPERS has been a leader because of that core of progressive leaders for decades.

CalPERS is a trusted provider of financial and health products and services today. Our members need someone they trust and can rely on in the future to help guide them through uncertain times in their retirement. We want to be there for them.

Narrator:

The proactive style of CalPERS, particularly in regard to corporate governance, has positioned CalPERS well for the uncertainties of tomorrow. The balanced

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portfolio means that losses in one category are offset by gains in others. The retirement for new members is fully-funded after just five years in the system; a dramatic fact in a time when many pension plans are under funded or even bankrupt.

Rob Feckner:

During the downturn of the market in the 2000's, early 2000's, we saw a low of \$128 billion dollars. In less than 5 years, we're at \$237 billion. So in less than five years, we've grown in more than 120 billion dollars. Which shows that not only was our structure sound in the first place, but our investment professionals are doing the right thing on a day-to-day basis.

JJ Jelinicic:

Quite frankly, pension plans shouldn't care where the market's going to be 10 days from now. They should care where it's going to be 10 years from now or 20 years from now.

Fred Buenrostro:

Our members understand the security of having put their money with CalPERS. They know that through good times and bad times that the benefit that they have contributed to throughout their careers will be there for them. They know their money isn't going to be stolen. They know that their money isn't going to be raided. That CalPERS will stand up and protect their rights to benefits in the future.

Pat Macht:

I sense that the culture of CalPERS has always been a family and when you think about the mission, the mission is very much a human mission. It's about making sure that your fellow workers who've given all their years to public service have the retirement and health security they need when they retire.

Fred Buenrostro:

A day without CalPERS would mean a day without retirement for almost half a million people in California.

Rob Feckner:

If you're a public employee that was considering retirement, a day without CalPERS would be a nightmare.

Chuck Valdes:

The economy would be hurt dramatically.

Pat Macht:

Because when you think about everyday the amount of money that CalPERS is investing in businesses in the state that would be gone.

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JJ Jelincic:

It would cost the taxpayers more to run the state.

David Felderstein:

I honestly believe that without CalPERS and without CalSTRS and without systems like CalPERS, there would not be a stable workforce in the public sector.

Rob Feckner:

We would lose people that were willing to be firemen, policemen, to watch out for our public safety.

Pat Macht:

There would be literally hundreds of thousands of people who would not have a secure retirement who might have to go on public assistance.

Fred Buenrostro:

Which means they would be working into their seventies and potentially into their eighties or trying to live on a Social Security benefit in a very high cost state. That would be a dire circumstance.

Dawn Bronsema:

I feel fortunate that I have been able to live a good life. And good in my mind means secure.

William Donoghue:

CalPERS is sort of a big family, and by all contributing, we're all taking care of one another.

Dawn Bronsema:

I've had health benefits, I've always had the pension to look forward to, knowing that I could continue to live comfortably as I retired.

William Donoghue:

I helped my siblings when I was the eldest in the family and they needed my help. And then when I got older and I got ill, they were able to help me. So kindness begets kindness, and I think that is the thrust of what happened in the family, and the thrust of what happens with CalPERS.

Dawn Bronsema:

This is the dream that we have: that we continue to live comfortably.

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Speech:

It has been found that in California there are some two thousand four hundred persons over seventy years old receiving relief in their homes averaging less than fifteen dollars a month. It is the grave fault of our economic structure that elderly workers are being relegated to the human scrapheap to make way for those who are younger. Therefore, these measures conform admirably to our program of building for the future, setting up a plan to care for the unfortunate. It's a humane and kindly act of legislation, and it gives me great pleasure to sign this bill that may bring happiness into the lives of dependent men and women.

What I have done, I have felt was my duty.

(Given by Gov. Clement Young on May 28, 1929.)